

VZCZCXRO1220
PP RUEHBC RUEHDE RUEHIHL RUEHKUK
DE RUEHGB #1826/01 1691218
ZNY CCCCC ZZH
P 171218Z JUN 08
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC PRIORITY 7836
INFO RUCNRAQ/IRAQ COLLECTIVE
RUEHC/OPEC COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 001826

SIPDIS

E.O. 12958: DECL: 06/17/2018
TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [IZ](#)
SUBJECT: RRT ERBIL: KRG OIL MINISTER ON UPCOMING
NEGOTIATIONS ON HYDROCARBON LEGISLATION

REF: A. BAGHDAD 1277
[1](#)B. BAGHDAD 1447

Classified By: Erbil RRT U.S. Team Leader Jess Baily for Reasons 1.4 (b
,d)

This is an Erbil Regional Reconstruction Team message.

[1](#)1. (C) Summary: Kurdistan Regional Government (KRG) Minister of Natural Resources Dr. Ashti Hawrami expressed cautious optimism that KRG Prime Minister Nechirvan Barzani's upcoming meetings with PM Maliki in Baghdad could lead to passage of some hydrocarbon legislation "by October." This optimism is tempered by his view that other parties in Iraq do not see hydrocarbon legislation as a priority. He said the provision for a "strategic project fund" remains the sole issue of disagreement in the revenue sharing law but revealed few details about the KRG's negotiating stance. The KRG remains committed to full transparency regarding oil contracts it has signed, but any recommendations for changes by a federal oil and gas commission would have to be accepted by the KRG. Like PM Barzani, he counseled a low profile role for the U.S. in the negotiations to avoid heightening suspicions about U.S. designs on Iraqi oil, suspicions he says Iran is already fueling.
End Summary.

[1](#)2. (C) Kurdistan Regional Government (KRG) Minister of Natural Resources Dr. Ashti Hawrami and Advisor Khalid Salih met with RRTOffs June 16 to discuss the KRG's positions on national hydrocarbon legislation prior to the planned visit of KRG Prime Minister Nechirvan Barzani, now anticipated for late this week or early next week. (Note: a planned June 16 meeting between EMIN and PM Barzani was cancelled as weather in Baghdad grounded aircraft. End note.) Dr. Hawrami expressed guarded optimism about the prospects for the talks, speculating that some legislation could pass "by October." He noted that discussions would take place as planned between PM Barzani and PM Maliki, as there "was no point in speaking with (Minister of Oil) Shahrastani." Per reftels, he confirmed that KRG has winnowed their number of objections to the February texts, but declined to cite a number. Nechirvan will stay in Baghdad two or three days after which Hawrami believes the "deputies committee" will continue the discussions. "Dr. Rawsch Shuways (KDP senior official in Baghdad) knows our positions," he said.

[1](#)3. (C) On the negative side, Hawrami asserted that only the Kurds consider national hydrocarbon legislation to be a priority. Other parties agree in principle on the need for such legislation, but have other more immediate concerns, particularly Shi'a politicians jostling for position in the run-up to provincial elections. He also decried most politicians' ignorance about the legislation and oil policy in general; "they are just concerned about which house they will get in the Green Zone," he chided.

Revenue Sharing Closest

14. (C) Hawrami asserted that the revenue sharing law is closest to completion, and is the most important element for building trust on the remaining pieces and for fostering political reconciliation. The parties have agreed to reinstate February text language on a sovereign wealth fund (i.e., defer specifics to future legislation) and two other KRG objections. The KRG continues to object to a provision for a strategic projects fund that would automatically receive a percentage of revenues and which the Ministry of Finance would spend. Hawrami said this fund was not in the February agreement; that the figure of 10 to 15 percent too high; and that putting it under direct Ministry of Finance control was "out of the question." He indicated that Nechirvan was initially inclined to agree to a fund with a smaller share (five percent) of revenues, but had backed away from that position. The core problem is control over the money and who defines "strategic." The KRG believes that such projects should be funded in a normal budgetary process requiring justification for each project. The Kurds fear creating a Finance Ministry controlled slush fund over which they would have little influence. Hawrami's mistrust stems from his belief that the central government is not transparent about reporting current oil revenues. He estimates that Iraq will earn 30 billion dollars more than the 2008 budget estimate. "Where is all of that money?" he asked, even after RRTOffs reminded him of the pending GoI budget supplemental.

Framework Law: Contracts and Annexes

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15. (C) When asked whether the KRG would submit its existing production sharing agreements (PSAs) to review by the federal oil and gas commission, Hawrami struck a more defiant tone than Nechirvan (reftels), saying renegotiating existing agreements "will never happen" and the provision in the framework law only concerns future contracts. Stepping back, he said the KRG was committed to full transparency and would submit the existing contracts to the commission. After review the commission could make "recommendations" to the regional government. In case the regional government did not concur, the commission could take the matter to a political level or eventually to the Constitutional Court. Hawrami cited a legal opinion by a British expert (available on the KRG website) arguing that articles 115 and 121 of the constitution allow the regional government to have its own law as long as it did not violate that federal constitution and that in case of conflict with a federal law, the regional law would prevail.

16. (C) Hawrami said the KRG objected to annexes to the February texts which assigned "93 percent of Iraq's reserves to INOC (Iraqi National Oil Company) without any performance conditions." According to the KRG, the federal oil and gas commission should assign producing, discovered and undiscovered blocs to producers based on performance criteria. The INOC should show, for example, its plans for raising production on the major fields and be held accountable for performance. The framework law could deal with this issue by saying that INOC will be assigned blocs for eventual review by the Commission and that all parties should understand that such a review would take a while to complete. In the meantime, INOC would continue operating existing fields. He also indicated that producing fields in KRG territory (Khormala in particular) needed to be shared between INOC and its KRG equivalent, KNOC, as laid out in the Constitution.

17. (C) Hawrami claimed that the KRG has not received a definitive text of the laws for the Ministry of Oil and the INOC. Even though Nechirvan agreed to bring the four laws forward as a package, Hawrami is skeptical about agreeing to laws whose drafts the Ministry of Oil has not even shared.

Lobbying the Oil and Gas Committee

18. (C) Aware of the negative image of the KRG's contracts among Baghdad politicians, Hawrami said that he held a productive discussion with members of the Council of Representatives Oil and Gas Committee on the margins of Nechirvan's April visit to Baghdad. The KRG's efforts to win over COR members continued during a three-day visit to Erbil in early June by nine out of the ten committee members. The committee members raised questions about revenue sharing and expressed reservations about losing control of Iraq's oil to foreigners. Hawrami claimed Nechirvan and others allayed fears about KRG commitment to sharing revenues, while explanations of their model contract and visits to DNO operations in Zakho and Dana Gas/Crescent Petroleum near Chamchamal showed the benefits of foreign involvement in exploration. According to Hawrami, Iran is stoking nationalistic opposition to international oil company involvement among Iraqi (especially Shi'a) politicians to prevent Iraq from developing and becoming strong. As an example, he said the Iranian oil minister told COR Oil and Gas Committee members during a Moscow conference that PSAs violated Iraq's national security and should not be signed. (Comment: Hawrami frequently asserts that Minister of Oil Shahrastani takes orders from Tehran. End Comment.)

U.S. Role

19. (C) Hawrami echoed Nechirvan's view (reftels) that the U.S. must not be seen as influencing the negotiations due to suspicions among many Iraqis about U.S. designs on Iraqi oil. Stating what he underscored was a personal opinion, he said Ambassador Khalilzad's intensive involvement in the February 2007 negotiations led to an agreement that none of the parties wanted and in the end delayed the process. Asking about U.S. policy toward the technical services agreements (TSAs) the Ministry of Oil is discussing with international oil companies, he expressed hope that our policy was to counsel oil companies against signing these agreements. He noted that they would be clouded by the same "legal uncertainty" as the KRG's PSAs. He also believes they are a trap to minimize international involvement in Iraq's oil sector. If these small agreements succeed in increasing production somewhat, Minister of Oil Shahrastani will claim success and will limit foreign involvement to similarly small deals. If production does not increase, Shahrastani will use

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the oil companies as a scapegoat.

10. Comment: Dr. Hawrami revealed few specifics about compromises the KRG is prepared to make to ensure passage of national hydrocarbon legislation. He remains convinced that the negotiations should focus on revenue sharing to build trust and leave governance of the industry for a later day. Hawrami freely admits that he is not a politician and realizes that only a political deal at the highest level will break the deadlock on hydrocarbons. His comments on how the Ministry of Oil may seek to marginalize the role of international oil companies in the long term may be true. But his query on U.S. policy toward TSAs was really meant to express the KRG's dissatisfaction on our approach to the KRG's PSAs and to urge the U.S. to maintain a balanced approach until national legislation passes. End comment.
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